

April 1, 2011

Mayor Rollins and Members of the Augusta City Council,

Pursuant to my responsibilities under our City Charter, I herewith present to you my proposed 2011/2012 City budget. This is the fourteenth annual budget I have prepared for our City. As in the past, I am continually mindful of the burden that the property tax places upon our citizens, as well as the reliance those same citizens have for the important services city government provides. I am often heard to opine that just once it would be wonderful to go through the municipal budget process without a heavy sense of fiscal pressure due mostly to forces beyond our control. I regard with envy the municipal manager (there must be one out there somewhere) who is charged with crafting new programs and services desired by the residents and affordable because of a healthy local economy and ample revenue streams. Then our talented Director of Finance and Administration, Ralph St. Pierre, brings me back to current realities and I once again apply myself and our senior management team to the challenge at hand.

For the upcoming fiscal year of July 2011 – June 2012, I am recommending a municipal budget of \$22,098,867 - which is an increase of \$512,745 or 2.4% over this year. Given the relatively flat nature of non-property tax revenues and the lack of growth in the property tax base, this level of expenditure would require an increase of \$263,270 in the property tax levy or an increase in the tax rate of 1.15%, from \$17.05 per thousand of valuation to \$17.25. The Board of Education has adopted a proposed budget for your review that totals \$27,017,417 and would require an increase in property tax support over this year of \$189,464. If you were to adopt the school budget as proposed, that would require an additional 0.77 % increase in the tax rate. Kennebec County, which funds its operations on a mandatory assessment to its thirty-seven municipalities, is estimated to be an additional \$48,880, a 3.5% increase for the City of Augusta over this year's levy of \$1,396,620 and also adds to the 2011/2012 proposed tax rate. All combined, an increase in the tax rate for 2011/2012 of \$0.35 or 2.06 % would be needed to fund these budgets as proposed.

I am a realist about what Augusta's taxpayers can afford to pay in these difficult economic times and I appreciate that changes to these proposed budgets (with the exception of the County Tax over which we have no control) are likely necessary. My

staff and I are committed to working with you to that end. However, I do think it is important that at some point in the year, you and our citizens are provided with a picture of what I believe the City's operation needs are and the costs associated with them. That is one of the goals of this document.

Many of the issues that were at play in last year's budget process remain as concerns this year. Although we have made substantial progress over the past year in addressing categorical cost escalators (health insurance costs for employees and retirees, pension obligation bond increases, and state retirement system mandated contribution increases) through negotiated labor contract settlements and comparable adjustments to non-union policies, we still must contend with increases in these big cost centers. (Not that we haven't been rigorous about that in recent years with actions to consolidate and/or reduce programs and the elimination of 10% of city government – and at least as many School Department – positions.) Ralph has updated the Fixed Cost Analysis chart he provided last year which served as a motivator for us to act as we have

Fixed Cost Analysis

FY	MPERS	PENS. BOND	RET.HLTH	ACT. HLTH	TOTAL	BDGT VAR.	TX RATE
FY 2011	384,620	1,354,350	904,700	1,851,488	4,495,158	313,826	1.27%
FY 2012	464,089	1,449,088	986,252	2,077,502	4,976,930	481,772	1.95%
FY 2013	569,530	1,544,531	1,299,851	2,183,088	5,597,000	620,070	2.51%
FY 2014	569,530	1,641,644	1,571,751	2,401,397	6,184,322	587,321	2.37%
FY 2015	569,530	1,740,775	1,709,788	2,641,536	6,661,630	477,308	1.93%
FY 2016	569,530	1,841,500	1,825,280	2,905,690	7,142,000	480,370	1.94%
FY 2017	569,530	1,947,381	1,948,344	3,196,259	7,661,514	519,514	2.10%
FY 2018	569,530	2,057,631	2,191,196	3,515,885	8,334,242	672,728	2.72%
FY 2019	569,530	0	2,385,580	3,867,474	6,822,584	-1,511,658	-6.11%

To minimize the budget's property tax impact, the School Department will utilize \$1,252,579 of its accumulated surplus (and anticipates doing so again in 2012/2013 at which time said surplus should be pretty much exhausted). The General Fund's undesignated fund balance stands at about \$5.5 million which is somewhat higher than the 8.3% of the City budget the Charter recommends, so I am recommending an appropriation of \$220,178 to meet one-time costs and maintain tax rate stability. My budget also maintains municipal "shut-down" days for the third year in a row although this year I am proposing four instead of eight (each one saves the General Fund about \$17,000). Again this year, travel and training line items for city employees is kept to a minimum and is mostly used to maintain necessary certifications. No surprise to any of us, energy cost increases are significant on both the School and City sides of the ledger. We are budgeting a \$1.00 increase in the cost of fossil fuels (heating oil, gasoline and diesel fuel) and that alone accounts for \$181,678 or 63% of the new dollars on the City side and \$85,600 for the Schools.

Preserving key state authorized revenue streams has been an important activity in recent months as legislative proposals have put them in jeopardy. Bills to change how we receive vehicle excise tax and municipal revenue sharing have threatened our fiscal stability. With luck, these will be maintained at this year's levels, but that won't be clear until the State's budget process is completed later this spring.

In addition to our School Department and General Government budgets, the City has several significant enterprise operations that include the Augusta Civic Center, the Hatch Hill Regional Landfill and the Augusta State Airport. All are discussed in detail further on but in summary, all their proposed budgets are consistent with this year's – meaning they remain in the black but struggle as a consequence of the poor economy.

General Government Revenues

The proposed General Government budget for 2011/2012 is \$22,098,867. Non-property tax revenues available to support the budget are projected to be \$9,100,023. That represents an increase over 2010/2011 of \$249,475 or 2.8%.

After property taxes, the largest General Government revenue source is vehicle excise tax receipts. Due to the depressed economy, we have seen this revenue fail to meet this year's projections (as of this writing, our current year's receipts are off by about 5%) and I foresee no improvement next year. Therefore, I recommend we budget \$2,675,800 for 2011/2012 which is a \$124,498 (or 4.4%) reduction from this year. I should note that proposals to reduce or eliminate excise tax are routinely presented to the Legislature (and were the subject of a statewide referendum a year ago) and it is an ongoing rear-guard struggle for municipalities and their advocates to prevent this key revenue source from being eroded (which, of course, would only result in more pressure placed upon the most regressive of Maine's taxes – the property tax).

The third largest municipal revenue source for us is State Revenue Sharing. Under current law, the state is required to distribute by formula 5.1% of the corporate and personal income and sales taxes that it takes in to Maine's 498 cities and towns. In recent years, however, in order to balance its own budget, the Governor and Legislature have raided the Revenue Sharing Trust Fund of tens of millions of dollars a year. As a result, Augusta's revenue sharing receipts have shrunk from \$2.6 million in 2008 to \$1.6 million (estimated) in 2011. For the coming year, the Governor has proposed doing away with the entire concept of revenue sharing and substituting it with a straight annual appropriation (which would be \$94 million in FY 2012), the amount of which would be a slight increase from what we budgeted for this year. At this writing, there does not appear to be a lot of legislative support for that structural change in the law but neither is there apparent support for cities and towns getting the full 5.1% share of state revenues. Thus, I am budgeting \$1,740,091 for next year an increase of \$93,233 (5.7%). (Were the state to honor its full statutory commitment to revenue sharing, we would be able to add another \$850,000 to next year's budget based on current 2012 state revenue projections – that, as they say, is not chicken feed.)

In the past two years, Council has appropriated money from a reserve account that was set up with the \$1.5 million proceeds of the sale of a portion of the former Cony High School site. It is still an open policy question as to whether to continue to use those funds to reduce the needs from taxation or to support some capital project(s). For the coming year, I am recommending an appropriation from that reserve of \$166, 611 – the same as this year. At this rate, the principle would be expended in another eight years or so, which coincides with the amortization schedule of the City's outstanding pension obligation bond.

Ralph St. Pierre anticipates that interest rates will see an uptick in the coming year and accordingly proposes an increase in what we budget for interest income on our funds on deposit. Therefore, this line item increases from \$488,347 to \$518,347 (\$30,000) or 6.1%.

As you know, in recent years it has been a priority to collaborate with other governmental entities to save money and create efficiencies. Two of those initiatives are off the table this year, primarily due to City staff retirements. When City Assessor Don Cadwell retired last December, he was hired on a part-time basis by the Town of Winthrop; thus, they no longer had a need to contact with us for assessing services. For that reason, we discontinued the contract with Winthrop and no longer have the \$37,000 revenue item it represented. On the other side of the ledger, however, we reduced the number of full time positions in Assessing by one and expenditures are down a corresponding amount. Also, with the retirement of DPW Director John Charest in December and promotion of Engineering Technician Jerry Dostie to Highway Superintendent, we have left vacant the engineering position and no longer have the staff to perform contractual engineering services for the Greater Augusta Utilities District. So, here again we lose a revenue item of \$27,000 but see an offsetting expenditure reduction in the Engineering Bureau by not refilling that position at this time.

A year ago, we ceased to treat our Fire Department based ambulance service as a separate fund and incorporated it in the General Fund as part of the Fire Department budget. Thus the revenue we receive for this service now shows up in General Government revenues. For 2011/2012, I estimate Ambulance revenues to be \$1,100,032 – up 1.8% (or \$19,047) from this year. We are transferring to a new billing and collection service and staff has revised procedures to enhance collections. Our billings are typically insurance reimbursements and much of that is Medicare and MaineCare (Medicaid) – thus we are vulnerable to state and federal budget adjustments in rates of reimbursement.

The City has a number of tax-increment financing arrangements in place designed to spur key economic development initiatives. One of the benefits of TIF's is that they shelter property tax proceeds from counting against the City when state aid to education, revenue sharing and county taxes is calculated. Those sheltered property tax revenues can be spent by the City for certain eligible municipal activities, including funding some capital improvements (like North and South Chestnut Streets reconstruction and the cost of our Economic Development Bureau). The revenue budgeted to the General Fund from TIF proceeds is \$505,247 – the same as for this year.

Another significant state revenue source for us is reimbursement for what we spend each year to provide maintenance to state-owned highways in the City. Known as the Urban Rural Initiative Program (URIP), I expect us to receive \$307,444 in 2011/2012; an increase of \$52,732 (21%) over this year. This is based on actual receipts this year – I think we budgeted low - not a state increase in appropriation year over year.

Other General Government revenue changes year-to-year to note include a \$10,000 increase in rental of City property (lease escalators and full lease-up at the Buker Center); a \$10,000 increase in building permits (reflecting Ralph's and my enduring optimism about the future of the economy); a \$15,000 increase in state reimbursements for General Assistance (attributable to an expected increase in General Assistance payments due to Ralph's and my contradictory pessimism about the state of the economy); a \$20,000 increase in cable franchise fees based on recent actual receipts; and a \$25,000 increase in interest on unpaid taxes – another sign of the times.

The last revenue line you should note in particular is the appropriation from the Undesignated Fund Balance. As mentioned in the introduction, I am recommending an increase over last year to this line item of \$181,678. That increase is intended to partially offset the spike in the cost of petroleum products with the hope that in another year they will stabilize downward and thus not constitute a permanent budget increase (which we would not want to fund from fund balance).

General Government Expenditures

As mentioned above, the proposed General Fund expenditure budget for 2011/2012 increases from \$21,586,122 to \$22,098,867 – an increase of \$512,745 or 2.38%. Over \$500,000 of the budget's increases can be attributed to several specific causes. The increased costs of petroleum products (unleaded gasoline, diesel fuel and heating oil) accounts for \$181,678 alone (we are budgeting \$3.20/gal for unleaded, \$3.45 for diesel and \$3.50 for heating oil – each about a dollar more than this year, which we can only hope will be enough). The Maine Public Employees Retirement System is raising the rate of employer contribution over several years from 2.8% to 6% (due to the reduced returns from its portfolio investments) and that will increase our required contributions by \$94,681 to \$611,854. For another seven years, the City has debt service payments on a pension obligation bond that was issued eight years ago to pay off outstanding, unfunded pension obligations. Each year the payment steps up and the increase for 2011/2012 is \$76,676. Ambulance service bad debts – those we write off – increases \$41,436 based on recent experience. Lease payments for a replacement ambulance authorized earlier this year by Council adds \$39,060 and workforce salary and health benefit cost increases provided for by approved new union contracts (and comparable increases for non-union employees) adds \$73,000. This last amount is as modest as it is due to the savings in health and retirement benefit costs achieved in labor negotiations that Ralph led this past year and to employee turn-over savings.

On the plus side, categorical expenditure savings will be realized in DPW solid waste disposal fees (\$37,500) attributable to a revised Hatch Hill Landfill rate structure for high volume customers (of which the City is one); reduced electricity charges of \$35,000 due to our blending of multi-year purchase agreement rates; \$28,600 in lower total debt service payments as we amortize more debt than we take on; \$23,000 in lower worker's compensation insurance premiums attributable to an improved experience modification (that reflects our workplace safety improvement efforts); and \$27,000 in lower sewer and telecommunication charges. Taken together, these savings add up to \$151,100.

For 2011/2012, the Legislative and Executive Department funding level is reduced by 6.3% to \$562,656. That is attributable to some turn-over savings in the Executive Assistant position in the City Manager's Office and reassigning a clerical support position to the Finance Department (where there is a corresponding increase in staff costs) and a \$9,240 reduction in the Unclassified account due to a new agreement with Time Warner that reduces the number of City telephone lines and their cost. There is a modest (\$3,242) increase in our dues/membership line item in Unclassified mostly due to an increase in our dues to the Maine Municipal Association, Maine Service Center Coalition and Kennebec Valley Council of Governments. These organizations are key advocates for us (and in the case of MMA provide us – as a benefit of membership – with most of our insurances at favorable rates).

The Finance and Administration Department increases overall by \$23,093 (or 1.5%) to \$1,564,482. The Clerk/Treasury Bureau goes up \$14,137, much of which is routine wage adjustments (steps and 2% cost-of-living increases consistent throughout this budget). Elections increases \$21,607 to \$44,773 to cover a November general election and June 2012 primary, both using four polling places. The Audit Bureau increases 3.8% to \$152,347 with the increase due to employees being transferred to the Maine Municipal Health Trust from the Teamsters' Union health plan. *(Councilors will recall that new union contracts call for all employees except Police officers/supervisors to switch plans and that overall switch saves the City substantial money. However, there will be individual instances, like Audit, where costs increase because more of the employees qualify for a full family plan as opposed to single coverage. The overall savings occurred because the Teamsters' coverage had a blended flat rate (regardless of single or premium family premium for all enrollees.)* The Information Services Bureau is down \$12,822 to \$373,578 (3.3%) due to employee turn-over savings and the Assessor's Bureau is down \$59,696 (29.3%) due to the reduction of a full-time position discussed above. Finance Administration increases \$36,943 (33.1%) as a result of shifting the clerical support position formerly charged to the Manager's Office to a floating support position for Audit, Assessing and Clerk/Treasury. The bureau is also up because of routine step and COLA increases. The Human Resources Bureau increases by \$17,285 (7.6%) to \$246,088. This is another instance where changes to the health coverage were more costly and wage and step increases added to the total increase. (Note that our HR Bureau continues to provide excellent contractual service to the utility district and for which we receive annual revenue of \$23,000, as well as another \$37,500 for contracted finance administrative services to GAUD.)

The proposed \$1,519,814 budget for the City Services Department (also called the Development Services Department) is an increase of \$86,222 (6%). This is a department with a diverse array of responsibilities, ranging from economic development to code enforcement to facilities maintenance. The increases are mostly attributable to staff realignments (the only increase in staff recommended in the entire proposed 2011/2012 budget is in this department and that is for one part-time position in Code Enforcement to beef up our ability to enforce serious fire code violations in multi-family residential buildings and the upgrade of assistant planner to full-time as it was until last year), standard wage and benefit escalators, and the cost of heating oil increases at City Hall, Buker Center and the Flatiron Building. The Economic Development Bureau is down 4.6% to \$221,995 (all of which is covered by TIF dollars). The administrative assistant position vacated last year with promotion of Linda Novak to Old Fort Western director has been reclassified to a lower grade and split with City Services Administration (which is up a corresponding amount). Some of the savings associated with this are used to reinstate the full-time status of the Assistant Planner position. The Engineering Bureau is now just a one-person operation with longtime City Engineer Lionel Cayer holding down the fort and bureau costs down \$2,326 or 2.1% (in this year's budget, the engineering technician's position was funded with revenues from capital projects and GAUD contract funds so that's why you don't see a large budget reduction here). The last three cost centers in the City Services Department are for maintenance and operation of City Hall, the Buker Community Center and the Flatiron Building. In total, those accounts increase \$51,334 and \$42,000 of that total is the heating oil cost increase. The remainder is routine wages and benefits attributable to the staff assigned to those accounts (the facilities director and custodians).

The Community Services Department is up \$88,487 (4.6%) to \$2,009,197 for this year. Administration sees an \$8,916 (5.9%) increase due to wage and benefit increase and health insurance plan changes. Lithgow Library increases \$21,050 (3.7%) to \$588,409 - most of which (\$18,600) is also wage and benefit increases. It's worth noting that Librarian Betsy Pohl and her dedicated staff continue to labor under far less than desirable conditions as far as the physical facility is concerned. An impressive group of community volunteers is well along on a capital fund drive intending to raise several million dollars toward an estimated \$8 million + library restoration and expansion. In the meantime, capital repairs are deferred in an attempt not to invest in improvements that would be inconsistent with the improvements should they eventually be authorized by Council and the voters. The Recreation Bureau is down a bit next year (.4%) to \$172,107 due to the health insurance switch. This bureau funding mostly provides for the core City staff that run the impressive array of year-round programs for all ages and interest groups based out of the Buker Center. The program costs are primarily offset through participant fees. The Parks and Cemeteries budget is up \$40,810 (5.8%) with \$10,484 being for wage and benefit increases. Fuel cost increases are \$10,612 and equipment repairs are up \$6,000 based on actual experience from recent years. There is also \$5,200 in the budget for equipment replacement (two portable bleachers) and \$4,000 for irrigation system repairs for Alumni Field. The Old Fort Western Bureau is down \$5,244 (6%) because of the health plan switch. The Fort, I am happy to report, is faring well under its new director (for the past several Sundays, history buff Bridgeo has thoroughly enjoyed the

Fort's winter speaker series as have a impressive number of like-minded area residents). Soon enough, it will be time to reopen Bicentennial Nature Park for another summer season. This year, I am recommending \$39,980 a reduction of \$2,924 (6.8%), which should be sufficient to staff and maintain the facility. By state law, municipalities are required to provide General Assistance services to the most needy of our citizens. Recognizing that mandate, the state reimburses communities for 50% of direct outlays for temporary shelter, food and personal necessities (to an individual limit of about \$503 a month). With the increase we are seeing in caseload due to the economy and we expect to spend an additional \$29,850 in such support payments next year (half of which is reflected as an increase in that revenue line item). Health and Welfare Administration (the cost of which is not reimbursed) is down \$3,298 (3.3%) again due to the switch in health insurance plans. As a footnote, the City still retains the able services - on a part-time basis - of retired Health and Welfare Director, Mary Frances Bartlett who serves as our liaison to the area social services network, monitors legislative issues that potentially affect us in this area, as well as assisting my office in Health Officer matters.

Appropriately, one of our City's major cost centers is the Department of Public Safety. For next year, I propose an increase in the department's budget of \$184,780 (2.4%) to \$7,781,264. In the Police Department, expenditures are reduced from this year by \$28,664 (.1%) to \$3,931,686. This can be attributed to turnover wage and benefit savings, (down \$48,677) and \$5,400 less in equipment replacement. On the plus side, vehicle fuel will be up \$25,000 and I have made allowance for personnel cost increases associated with the recommendations made in the recent IACP police management study (although it is yet to be determined by you which of the study's recommendations will ultimately be implemented). Our new Chief, Bob Gregoire, has already demonstrated to me a serious commitment to fiscal restraint while maintaining a healthy regard for the welfare and morale of his people. The Fire Department (which includes the ambulance service which until last year was treated as a separate enterprise fund) requires an increase in funding of \$188,824 (5.2%) which brings the total for next year to \$3,834,618. Wages and benefits are up \$56,803, consistent with anticipated union contract settlements (firefighters and battalion chiefs are the two city bargaining units that have yet to settle contract renewals that expired last June 30th). Like the Police and Public Works departments, the Fire Department consumes a lot of gasoline and diesel fuel and those costs are projected to rise by \$27,870. A write-off for bad debt against ambulance charges increases by \$41,436 (reflecting recent actual experience) and a new line item for a (five-year) lease payment for a replacement ambulance approved by Council several months ago adds \$39,060 to the budget. Also worth noting is a decrease of \$7,000 in training costs (less being done on overtime); \$7,300 earmarked for body work to the ladder truck (the CIP recommends replacing this vehicle in a couple of years with a combination pumper and ladder truck - called a Quint in the vernacular of firefighters - which is estimated to cost close to a million dollars so a modest amount spent keeping the current ladder in good working order is prudent); and an additional \$8,950 for building maintenance and repair (which includes repaving the Hartford Station apron, refurbishing the bathroom and kitchen at Western Avenue and other miscellaneous projects). Emergency Preparedness funds are budgeted at \$14,960, an increase of \$1,420 (10%). This money is used to purchase disaster preparedness supplies and conduct related training.

The Public Works Department budget increases by \$109,491 (3.4%) next year to \$3,289,690. In recent years, we have simplified the number of department cost centers to four. The first, Administration is suggested to be reduced by \$57,121 (50%) to \$56,115 to reflect a reallocation of Director Lesley Jones salary and benefits among DPW, Central Garage, and Hatch Hill Landfill. Lesley's predecessor, John Charest was charged 100% to DPW and since her appointment Lesley has more evenly distributed her administrative oversight amongst the three separate enterprises. The same pro-rated allocation applies to her motor pool charges. Highway Maintenance is the next cost center and it is recommended to increase by \$74,724 (6.4%) next year to \$1,238,030. Wage and benefit increases account for \$38,530 of that (which includes provision for the street superintendent position filled earlier this year by Jerry Dostie); an increase of \$7,480 for rental of hired trucks and \$6,739 in increased motor pool charges. Consistent with other departments, fuel costs go up \$22,036. Snow Removal comes next with a recommended increase of \$68,722 (5.9%) to total \$1,228,073. As a rule, we look to the past five years' winter weather experience to guide us in projecting for the coming year (with real-time consideration for the impact of fuel cost increases). During review sessions, we can go into as much detail on that as you wish. I do want to commend Lesley and her staff for the terrific job of managing this winter's challenges. With both she and Jerry Dostie new to their respective positions and the fifth heaviest snowfall on record, I'd say they made it through their initiation process with flying colors. Lastly, the Waste Removal cost center increases by \$23,166 (3.2%) to \$767,472. Wage and benefit increases amount to \$46,529; fuel is up \$7,958; motor pool charges add another \$4,559. This is offset by a reduction of \$37,500 in landfill tipping fees due to the rate decrease implemented this past January for high volume haulers, which includes Public Works. (Our Hatch Hill Regional Landfill is operated by the City as an independent enterprise fully supported by user fees. Therefore, the General Fund service of residential curbside trash collect must pay for the per ton landfill fees much as any private hauler does.)

We now get into an area of this proposed budget where I rely most heavily on Ralph St. Pierre's impressive analytical expertise – namely utilities, insurance and retiree health, and debt service.

In the Utilities cost center, we can expect a budgetary reduction of \$46,557 (2.5%) next year. Of that, electricity charges should be down \$34,936 to \$190,561 as a result of multi-year purchase contract blended rates, usage patterns, and energy saving lighting upgrades (thank you, Efficiency Maine). Street lights will increase by \$12,615 to \$367,167 to reflect recent actual billings and traffic lights will go down by \$8,777 to \$15,308. Our sewer use charges will decrease \$16,140 to \$587,678 as adjusted to actual billings for this year.

The Insurance and Retiree Health cost center increases by \$156,710 (6.1%) to \$2,715,623. Of that, the most significant increase is retiree health insurance premiums and that is directly attributable to the exodus last June of eligible long-tenured employees who retired to avoid liability for co-payment of retiree health insurance premiums. This line item increases by \$96,230 to \$1,017,363. Also associated with retiree costs is the

annual principle and interest payment on a fifteen year Pension Obligation Bond issued by the City eight years ago. Each year that payment increases (next year's increase is \$76,676) as that was the only practical way to structure the bond issue when it was executed because that's how the original obligation to the state retirement system was structured. It's worth keeping in mind that the pension obligation bond will have saved the City over \$2 million in avoided interest costs over its fifteen year life. Our Property and Casualty Insurance premiums are projected to increase by \$6,840 to \$210,000 next year. One ray of sunshine in this area is the anticipated reduction in the cost of our Worker's Compensation premiums, due to an improved experience modification resulting from fewer workplace accidents and a continuous emphasis (especially by our HR Bureau) on workplace safety throughout the organization.

For the coming year, Debt Service, the principle and interest payments for outstanding General Fund bond issues (detailed in the schedule marked "Exhibit "A" immediately following this message) decreases by \$28,609 (3.4%) to \$809,226. That amount includes provision for first year interest on a \$750,000 Council bond discussed at greater length in the Capital Improvement Program section below.

By State law, all municipalities are assessed and obligated to pay a County Tax. It represents a pro-rata share of the operating costs of county government. Ralph estimates the county tax will increase by 3.5% next year (\$48,880) to \$1,445,500.

Capital Improvements Program

I am providing for sufficient money in the Debt Service account to fund a \$750,000 Council bond for capital improvements. Traditionally, capital improvements attributable to the General Fund are funded by a cash appropriation, bonds authorized by city charter to be issued under the authority of City Council (which the Charter says cannot exceed \$750,000 in any one fiscal year), or bonds issued after a favorable Council vote and subsequent voter ratification in a municipal election. Depending on the City's financial capacity, the annual CIP can be funded by any combination of the three. This year, I do not feel we have sufficient reserves to provide for a "cash-capital" CIP and I am not recommending a referendum authorized CIP. I also have not finished evaluating the potential Council bond CIP requests submitted by staff but I feel comfortable in providing for a placeholder with the particulars to be laid out within a few weeks – well before the budget session scheduled for considering this program. The other reason I want to hold off CIP recommendations is to allow the State budget process to get further along. Though I doubt that the Legislature will fully restore state/municipal revenue sharing to its statutory 5.1% level (the \$94 million provided in the Governor's proposed budget is 3.8%), it is possible that there could end up being something in between. If that happens, I will be recommending that the difference be allocated to the cash CIP. (Generally, a hefty piece of the CIP is road paving and reconstruction. As of now, we still have some funds left over from this year that will be carried over for that purpose and if oil prices remain as high as we are seeing them, it may be prudent to scale back our paving program for a year rather than buying at the peak of asphalt prices.)

Enterprise Accounts

In addition to the municipal services supported by the General Fund, there are several separate and distinct operations in the City of Augusta classified and operated as enterprise funds. They include the Airport, Civic Center, Hatch Hill Regional Landfill and Central Garage (although this last one is technically considered an “internal service fund”). The key operating principle of an enterprise fund is that it is sustained for the most part by revenues that its operations generate.

The Augusta State Airport is owned by the State of Maine and for the past sixteen years has been managed by the City of Augusta through a contract for services. All costs associated with the personnel who run the airport, as well as all related supplies, contractual services and capital improvements are paid for with State or federal funds channeled through the State. For the coming year, the budget for the airport is \$550,000 – the same as this year (as provided by the state contract. With the change last December in passenger air service to Cape Air, full time airport fire protection was discontinued. Early reports are that the new service is being very well received with passenger numbers up substantially. Also, major capital improvements, funded by Federal Aviation Administration grant funds, are underway that will enhance the vitality of this important regional aviation asset. The state continues to be a very cooperative partner in this endeavor.

Not technically an enterprise fund but outside the General Fund (because it is supported by user fees and state grants) is the Childcare program. This popular program operates as a bureau of the Community Services Department and provides after-school care for about 130 children and another 100 children in the all-day summer program. The budget for Childcare for 2011/2012 is \$370,231, down 2.9% from this year’s budget of \$380,029. This is due to a modest drop in participation.

The Augusta Civic Center is the premier conference, arena, and public meeting venue in Maine. I repeat annually in this message that our Civic Center is a rare thing among its peer institutions around the country in that it is pretty much a break even operation that does not rely on tax dollar subsidies to stay in business. Of course, the poor economy has not made that easy and it is primarily through the energy dedication and creativity of the Civic Center staff that it stays vibrant. For the coming year, Director Dana Colwill recommends a total budget of \$2,924,099 up a modest \$5,435 (.2%). On the revenue side, we anticipate rate increases for physical plant (room rentals, etc.) of between 5% and 15% which will add \$39,468. Sale of advertising (which has improved this year) will add \$14,100 in additional revenue and a 7% rate increase in food charges will increase catering revenues by \$25,017. Bar concession receipts are projected to be down by

\$45,430 due to less demand from promoters for concert events (we made that much over budget last year on the Phish concert alone).

Civic Center expenditures will be down \$6,859 (.23%) so that the budget balances (last year we appropriated from the fund balance to offset the imbalance). Significant changes in expenditure lines worth noting include \$46,000 less in equipment rental (as we will not need to rent a temporary air conditioning unit as we did this year); \$22,850 less in electricity charges (blended rate improvements and efficiency upgrades); \$14,294 less in salaries (due to turnover in three maintenance positions); \$10,375 in debt service payments as we amortize an improvements bond issue; \$8,708 in lower workers' compensation insurance premiums due to the improved experience modification. Expenditure increases include \$24,431 more in the repairs and maintenance of physical plant to provide for replacement carpet in several areas of the building; a \$17,400 increase in the price of gas for heating fuel; \$11,150 in equipment depreciation based on recent capital investments; \$10,225 in part-time wages (to provide for a 2.3% COLA for long-tenured part time employees); and \$10,000 more for construction materials for building maintenance.

As you are aware, there is a lot happening related to the Hatch Hill Regional Landfill – now and into the next fiscal year. A major contract was recently awarded to Sargent Construction Company for closure of Phase Two of the landfill which includes the installation of a system to capture the methane gas that is a natural by-product of organic decay in landfills. The total cost of this closure project is \$2.8 million. Earlier this year, reacting to the loss of one (and potentially more) major commercial customer of the landfill, we instituted a new rate structure that has stabilized revenues and should keep the enterprise in the black for the foreseeable future. The projected revenues for Hatch Hill for 2011/2012 are \$2,988,298, up \$566,495 or 23.3%. Most of that amount (\$556,200) is due to a marked increase in tonnage we will take in (from 23,000 this year to an estimated 35,000 next year) as a result of voluntary compliance with the City's flow control requirements. (That compliance was incented by our implementation of a tiered tipping fee schedule ranging from \$72 a ton down to \$62 a ton depending on annual volume. This hefty increase in business does come with associated operational expenses but reverses a deficit situation that would have created a serious financial drain on the City.

Hatch Hill expenditures are up \$410,424, a 17.7% increase. Line items of note include a \$278,972 increase in the amount appropriated for closure reserve as required by our state operating license. (The more refuse we take in, the quicker the landfill exhausts its expected useful life and the sooner the City will be required to expend approximately \$6 million to permanently cap it and capture – through an active gas collection system - the methane gas it will generate.) As well, an increase in annual tonnage requires an increase in the allowance for depreciation in the value of the asset – in this case the \$9 million bond-funded Phase III which is the current active section of the landfill. Depreciation goes up \$139,680 next year based on the 35,000 ton estimate. Miscellaneous services increases \$26,000 for monitoring of the active gas collection system now being installed as part of the Sargent Phase II closure contract. Engineering services needs an additional

\$20,000 to fund redesign of replacement of aging remote controlled mechanical and electrical systems primarily associated with leachate control. Like other funds, petroleum products (gas, diesel and oil) are up by \$14,175. Reductions in line items include wages and benefits down \$17,903 (4%), due to a balancing of Lesley Jones compensation among DPW, Central Garage and Hatch Hill; a \$20,400 decrease in the cost of rental equipment (we will rely more on our own trucks and recycling is down); recycling fees that we pay will be down \$8,600 again due to less material being deposited with us; and interest on Hatch Hill debt will be down \$28,327 as we continue to amortize the principle on the bond issue that funded Expansion III.

For many years, the City has effectively used an internal service fund, Central Garage (which is very similar to an enterprise fund), to provide for fleet acquisition, replacement and maintenance for all vehicles and motorized equipment with the exception of Police and Fire vehicles (which are maintained by the Fire Department mechanic). Central Garage employs a fleet services manager (who reports to the Director of Public Works), a working foreman and four mechanics. The budget for Central Garage is funded through vehicle rental charges for vehicles assigned to city departments and through fuel surcharges. For 2011/2012, the Central garage revenue budget is \$1,873,838 which is \$240,075 (14.7%) over this year. Motor pool rental charges are up \$62,838 due to charge-offs to two capital projects (Blair Rd and North Chestnut St). Fuel sales are up \$177,084 due to the increase in motor fuel cost.

On the Central Garage expenditure side, the budget increases from \$1,521,460, to \$1,792,089 with the difference going to retained earnings. The estimated net earnings of \$81,744 is necessary in order to sustain the replacement schedule of equipment (see Appendix “B”) for the five-year program. Wage and benefits increase \$43,140 as a result of allocating a portion of the Public Works Director’s wage and benefit cost to Central Garage. Repainting of plow equipment adds \$4,500. The cost to purchase unleaded and diesel fuels is up \$177,240. Central Garage purchases approximately 99,000 gallons of diesel and 72,000 gallons of unleaded fuels. Depreciation expense for FY 2012 is \$322,856 up \$46,503. As we replace equipment, the cost of new equipment is substantially greater than the older equipment. (The average age of our fleet of rolling stock is nine years.)

Conclusion

As you are well aware, the drafting, review and adoption of the annual City budget is a process that involves many months and the participation of a large number of City and School Department employees, as well as elected leaders. We all take this process very seriously because the finished product establishes a broad range of important policies and the bulk of the work program for the coming fiscal year. The struggling national and area economies make the task of budget adoption difficult and often frustrating, as we would all want to do more for our citizens than available resources permit. A succession of such difficult budget processes in recent years only adds to the challenge. Nonetheless, Augusta is blessed with capable, dedicated employees in the School Department and City government and with a tradition of non-partisan policy making that focuses on what’s best for the community at large and the end result is always a thoughtful balance of needs

versus resources – typically arrived at by consensus. I am sure that will be the case again this year. City staff and I look forward to assisting you in the weeks ahead as you review this proposed budget, amend it as you deem fit, and authorize its implementation.

Sincerely,

William R. Bridgeo
City Manager